

**THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2017-292-WS**

In the Matter of

Application of Carolina Water Service,  
Inc. for an Adjustment of Rates and  
Charges and Modifications to Certain  
Terms and Conditions for the Provision of  
Water and Sewer Service

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**REBUTTAL TESTIMONY  
OF  
MICHAEL R. CARTIN**

**Q. THE ORS RECOMMENDS AN INCREASE IN LATE FEE REVENUE  
ASSOCIATED WITH THE PROPOSED INCREASE IN CWS' REVENUES. PLEASE  
RESPOND TO THE ORS RECOMMENDATION. (SHELLINGER PAGE 10, LINE 3),**

**A.** CWS disagrees with ORS' adjustment. Proposing an increase to late fee revenues due to a potential increase in future rates is not known and measurable and therefore not appropriate. Although the Company understands ORS' rationale for this adjustment, it cannot be presumed that late fee revenues will increase proportionately with the percentage rate increase approved in this case. CWS proposes that miscellaneous revenue not be adjusted to the test year for late fee revenues because any adjustment would be speculative and is not known and measurable. ORS' adjustment would lower the Company's rate request by \$35,576 and the Company requests this adjustment be removed as part of this case.

**Q. ORS RECOMMENDS THAT CWS BE DENIED RECOVERY OF CERTAIN  
FINANCIAL AND LEGAL COSTS ASSOCIATED WITH ITS I-20 SEWER SYSTEM  
(PAGE 13, LINE 3 SHELLINGER TESTIMONY). HOW DO YOU RESPOND?**

1           A. ORS' recommendation is contrary to established precedent. Ongoing litigation costs  
2 are ordinarily treated as a regulatory asset. The Commission has long held that expenses for legal  
3 services during the test year when reasonably incurred are allowed for ratemaking purposes.  
4 Regulated utilities, like any business, will experience litigation costs associated with its business  
5 operations. Prudently incurred litigation costs limit exposure to liability and benefit the utility and  
6 its rate payers. And the Commission has allowed recovery of legal expense incurred for purposes  
7 which protect the interest of the utility and its ratepayers. Accordingly, the costs incurred in  
8 defending the Congaree Riverkeeper's ongoing lawsuit regarding the I-20 system should be  
9 allowed and amortized at a rate of 1.5% annually as authorized by the settlement of CWS' last rate  
10 case in Docket No. 2015-199-WS. Similarly, the costs of defending the lawsuit to condemn the I-  
11 20 system brought by the Town of Lexington, in which the value of the condemned assets is at  
12 issue, should be amortized at a rate of 1.5% annually... Although CWS agrees that penalties are  
13 not recoverable, it disagrees with ORS that the costs of "settlements" are not recoverable (see  
14 Schellinger Direct, p. 13, l. 9-11). Settlements limit litigation costs and liability which benefit the  
15 utility and its ratepayers and recovery of litigation expense is in the public interest. The Company  
16 requests the Commission approve recovery of financial and litigation costs associated with the I-  
17 20 sewer system totaling \$998,606 to be amortized at 1.5%. Recovery of these costs equates to  
18 \$14,979 in annual amortization expense.

19       **Q.    ORS RECOMMENDS THAT CWS COMPLETE AN INFLOW AND**  
20       **INFILTRATION STUDY AND COSTS BENEFITS ANALYSIS FOR THE SEWER**  
21       **SYSTEM SERVING PROPERTIES OWNED BY DANCING DOLPHIN, LLC. WHAT IS**  
22       **CWS' POSITION? (SCHELLINGER PAGE 17, LINE 1).**

1 A. CWS is willing to conduct an inflow and infiltration study and provide a report to the  
2 Commission within one year of the date of the order in this case.

3 **Q. ORS PROPOSES TO ADJUST GROSS PLANT IN SERVICE FOR NET PLANT**  
4 **ADDITIONS FOR ADDITIONS TO THE FRIARSGATE WASTEWATER TREATMENT**  
5 **FACILITY (WWTF). PLEASE ADDRESS ORS' PROPOSED ADJUSTMENTS. (PAYNE**  
6 **PAGE 17, LINE 5- ADJUSTMENT 32C).**

7 A. ORS' proposed adjustments exclude known and measurable general ledger additions, pro  
8 forma plant, and retirements through February 12, 2018. The Company disagrees with ORS'  
9 position not to include \$1,081,375 of plant in service in this adjustment. Because of the age and  
10 condition of the Equalization Basin's ("EQ") plastic liner at the Friarsgate WWTF, the Company  
11 was required by a DHEC Consent Order to: 1) remove the existing liner, 2) complete any  
12 environmental mitigation efforts concerning the soils under the existing liner, and 3) replace the  
13 EQ liner. This effort included removing and properly disposing of any affected soils. Once the  
14 site was sufficiently mitigated, new soil was brought in, graded, and compacted to prepare the site  
15 for the installation of the new liner. Although the EQ plastic liner has yet to be installed, the  
16 Company removed the existing EQ liner and completed the environmental mitigation required by  
17 DHEC before the audit cutoff date of February 12, 2018. CWS acted expeditiously to comply  
18 with the DHEC mandate. The measures required by the DHEC Consent Order affected the public  
19 interest. The Company's prompt action to mitigate any environmental concerns was in the public  
20 interest. The Company believes that these known and measurable expenditures provided prompt  
21 regulatory and environmental compliance and immediate environmental and customer benefits.  
22 Notwithstanding that the \$1,081,375 cost of the removal of the existing EQ liner and  
23 environmental remediation were a portion of the EQ liner replacement project, recovery of these

1 costs is in the public interest. The Company requests that these costs be included in this current  
2 case as prudently incurred costs.

3 **Q. ORS PROPOSES AN ADDITIONAL ADJUSTMENT TO GROSS PLANT IN**  
4 **SERVICE TO REMOVE CERTAIN ENGINEERING COSTS INCURRED AS A RESULT**  
5 **OF A DHEC CONSENT ORDER FOR THE FRIARSGATE WWTF. PLEASE RESPOND**  
6 **TO THE PROPOSED REMOVAL OF THESE COSTS. (PAYNE TESTIMONY PAGE 17,**  
7 **LINE 11-ADJUSTMENT 32D).**

8 **A.** The Company disagrees with ORS' adjustment. CWS worked collaboratively with DHEC  
9 to reach a Consent Order regarding improvements needed to the Friarsgate WWTF for the benefit  
10 of our customers. In particular, the DHEC Consent Order required CWS to hire a Registered  
11 Professional Engineer to prescribe an updated Operation and Maintenance Manual with standard  
12 operating procedures and checklists for the operation of all aspects of the Friarsgate WWTF  
13 treatment processes and sludge management, to include process control observations, testing  
14 schedules, bench sheets, log entries and so forth. As I have stated, the measures required by the  
15 DHEC Consent Order affected the public interest. To comply with the terms of the Consent Order,  
16 CWS hired WK Dickson, a qualified engineering firm, to design the O&M Manual and to take  
17 other measures necessary to ensure compliance with the Consent Order. The engineering costs are  
18 \$306,552. ORS objects to these otherwise known and measurable, prudently incurred costs  
19 because they were required by Consent Order. Because these engineering costs were incurred at  
20 DHEC's direction, their usefulness from a ratemaking viewpoint becomes all the more compelling,  
21 not less so as argued by ORS. Public policy encourages collaboration between regulated utilities  
22 and DHEC to achieve timely resolution of regulatory compliance issues and a utility that is legally  
23 required to undertake action under a lawful order from an agency with jurisdiction over it has no

1 choice but to comply. Disallowing recovery of remediation costs will impair a utility's ability to  
2 address environmental concerns and is inconsistent with allowing recovery of necessary and  
3 prudently incurred costs. Recovery of these engineering costs is in the public interest and CWS  
4 requests that the Commission include the \$306,552 in plant in service in this case.

5 **Q. DURING PUBLIC TESTIMONY AT THE YORK COUNTY PUBLIC SERVICE**  
6 **COMMISSION NIGHT HEARING HELD ON MARCH 6, 2018, SEVERAL CUSTOMERS**  
7 **RAISED CONCERNS REGARDING BASE FACILITIES CHARGES ASSOCIATED**  
8 **WITH THEIR IRRIGATION METERS. DOES THE COMPANY PROPOSE ANY**  
9 **CHANGES TO ITS RATES AND CHARGES IN THIS CASE TO ADDRESS THESE**  
10 **CUSTOMERS' CONCERNS?**

11 **A.** Yes, we have reviewed the concerns expressed by these customers and other customers  
12 who attended the Company's customer workshop on February 27, 2018 and believe a change to  
13 the Base Facilities Charge (BFC) is appropriate in this case. As a benefit to its customers whose  
14 sewer rates were based on water consumption, CWS offered a separate irrigation only meter to  
15 prevent these customers from having to pay the cost of sewer treatment for water used strictly for  
16 watering their lawns. However, when CWS moved to a flat rate for sewer service, these customers  
17 who were paying a BFC, lost the benefit of the irrigation meter. The Company proposes to  
18 eliminate the BFC for irrigation only meters for residential customers who are no longer receiving  
19 an economic benefit from having an irrigation meter. The impact on revenues will be \$37,946  
20 annually. The Company is not seeking recovery of this lost revenue in this case.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 **A.** Yes.